

Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 IO-13 ISO-00 SP-02 USIA-06 AID-05 EB-07

NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 L-03

H-02 PA-01 PRS-01 CIAE-00 COME-00 FRB-03 INR-07

NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 SAJ-01 DODE-00

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R 231659Z JUL 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 0662

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USMISSION USBERLIN

USMISSION NATO BRUSSELS

USNMR SHAPE

AMCONSUL FRANKFURT

AMCONSUL MUNICH

AMCONSUL BREMEN

AMCONSUL DUSSELDORF

AMCONSUL HAMBURG

AMCONSUL STUTTGART

CINC USAFE RAMSTEIN

CINC USAREUR HEIDELBERG

CINC EUR VAIHINGEN

AMEMBASSY TOKYO

USDEL MTN GENEVA

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DEPARTMENT PASS TREASURY, FRB AND CEA

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E.O. 11652: N/A

TAGS: EFIN, ECON, GW

SUBJECT: BUSINESS PROFITS IN THE FRG WITH SOME COMMENTS
ON WAGES

SUMMARY: PROFITS WILL RISE AT VERY IMPRESSIVE RATES IN 1976, IN PART COMPENSATING FOR VERY LOW RATES LAST YEAR. INDUSTRIAL EARNINGS VARY BY SECTOR, WITH THE RANGE RUNNING FROM 20-100 PERCENT GAINS; THE AVERAGE COULD BE 30 PERCENT. FOR THE ECONOMY AS A WHOLE, BUSINESS AND CAPITAL INCOME IS FORECAST TO RISE BETWEEN 14 AND 17.5 PERCENT. IT WAS UP BY 30 PERCENT IN THE FIRST QUARTER. REAL GROSS WAGES ARE PREDICTED TO BE UP 8 PERCENT FOR THE YEAR, BUT DID NOT INCREASE AT ALL IN THE FIRST QUARTER, REFLECTING THE SHIFT IN INCOME DISTRIBUTION CURRENTLY UNDERWAY. END SUMMARY

1. ONE OF THE BETTER KNOWN BANK ECONOMISTS TOLD US IN A RECENT CONVERSATION THAT PROFITS FOR BUSINESS AS A WHOLE WILL BE UP AN AVERAGE BY 20 PERCENT IN 1976. HE FORECAST THAT MANUFACTURERS' PROFITS WILL HAVE AN AVERAGE RISE OF 30 PERCENT, WITH CERTAIN SUB-SECTORAL CASES OF 50 PERCENT PROFIT JUMPS. HE CAUTIONED THAT, AS PHENOMENAL AS THESE NUMBERS SOUNDED, THEY HAD TO BE CONSIDERED IN THE LIGHT OF THE LOW 1975 BASE TO WHICH THEY APPLY. NEVERTHELESS, HE ADMITTED THAT IN VIEW OF THESE PROJECTED RESULTS, HIGHER WAGE DEMANDS WILL BE MADE AND MET. IN THIS CONNECTION HE ANTICIPATED 10 PERCENT WAGE BOOSTS (WHICH HE SAID BUSINESS WILL BE READY, WILLING AND ABLE TO PAY) AS THE RESULT OF THE NEXT ROUND OF WAGE NEGOTIATIONS IN COMPARISON TO THE 5-6 PERCENT RANGE AGREED TO THIS YEAR. COMMENT: THE RATES MENTIONED ARE HIGHER THAN WHAT MOST WOULD ADMIT, HOWEVER OUR SOURCE HAS A VERY HIGH REPUTATION FOR FORECASTING ACCURACY AND IS IN A POSITION TO KNOW BETTER THAN MOST. AND, IF INSTITUTIONAL BIAS ENTERED INTO HIS ASSESSMENT, IT WOULD HAVE BEEN OF A DOWNSIDE NATURE.

2. THE GERMAN SOCIETY OF INVESTMENT ADVISORS (DEGAB) SURVEYED 140 FIRMS, WHICH REPRESENT 42 PERCENT OF INDUSTRIAL SALES IN GERMANY, REGARDING EARNINGS
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EXPECTATIONS FOR 1976. ACCORDING TO THEIR FINDINGS (WHICH WERE MADE IN MARCH), THE STEEL INDUSTRY ANTICIPATES A 100 PERCENT JUMP IN EARNINGS IN 1976 AFTER A 64 PERCENT DECLINE IN 1975. CHEMICALS EXPECT PROFITS TO CLIMB 35 PERCENT THIS YEAR AS COMPARED TO A 50 PERCENT DROP IN 1975. THE AUTOMOTIVE SECTOR IS FORECAST TO HAVE A 33 PERCENT RISE IN 1976 FOLLOWING ON A 40 PERCENT INCREASE LAST YEAR. ELECTRICAL INDUSTRY EARNINGS WILL BE UP 33 PERCENT (1975: -6 PERCENT), UTILITIES, PLUS 25-30 PERCENT (1975: -3 PERCENT);

MACHINERY, A RISE OF ABOUT 20 PERCENT (1975: PLUS 16 PERCENT); AND CONSTRUCTION, UP 25 PERCENT (1975: -3 PERCENT). RETAILERS REPORTED 1976 PROFIT EXPECTATIONS OF 6 PERCENT ABOVE LAST YEAR, WHEN THEY ROSE BY AN EVEN STRONGER 17 PERCENT. THE TIRE INDUSTRY EXPECTS TO REPEAT THE 80 PERCENT EARNINGS JUMP OF 1975 IN 1976, WHILE THE PAPER PEOPLE LOOK TO A 50 PERCENT CLIMB IN

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1976 VERSUS A 60 PERCENT FALL LAST YEAR.

3. THERE HAVE BEEN SOME MACROECONOMIC FORECASTS OF PROFITS, BUT THEY ARE NOT BROKEN DOWN BY SECTOR. RATHER, THEY QUANTIFY INCOME INCREASES FOR A VERY BROAD CONCEPT CALLED BUSINESS AND CAPITAL ("UNTERNEHMERTAETIGKEIT UND VERMOEGEN"). THIS INCLUDES NOT ONLY INDUSTRY, BUT ALL FORMS OF PRIVATE ENTERPRISE INCOME, INCLUDING THAT FROM INVESTMENT IN STOCKS, BONDS, REAL ESTATE, ETC. USUALLY THESE FORECASTS ALSO CONTAIN AS A SEPARATE ITEM THE INCREASE IN WORKER INCOME, OR TOTAL WAGES IN THE MACRO-SENSE (A SLIGHTLY DIFFERENT CONCEPT THAN WHAT IS CONSIDERED AS THE NEGOTIATED WAGE INCREASE - E.G., IT INCLUDES THE EMPLOYER'S SHARE OF SOCIAL INSURANCE CONTRIBUTIONS - AND THEREFORE NOT DIRECTLY COMPARABLE). FOR COMPARISON PURPOSES WE COVER THIS IN THE TABLE BELOW AS WELL AS THE PROFIT PICTURE PORTRAYED IN THE MOST RECENT FORECASTS, AS WELL AS THE FIRST QUARTER 1976 AND FULL YEAR 1975 RESULTS:

GROSS INCOME FROM BUSINESS AND CAPITAL	GROSS WAGE INCOME RATE OF INCREASE 1/ INCREASE 1/
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BERLIN (DIW INSTITUTE FORECAST FOR 1976 MADE		
JUNE 16, 1976	16.5 PERCENT	8.0 PERCENT

IFO INSTITUTE FORECAST FOR 1976 MADE		
JUNE 1976	17.5 PERCENT	8.0 PERCENT

BDI (INDUSTRY ASSOC.) INSTITUTE (IW) FORE- CAST MADE JULY 20, 1976		
14.0 PERCENT	8.0 PERCENT	

1975 ACTUAL RESULTS	3.1 PERCENT	4.1 PERCENT
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1ST QUARTER 1976
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RESULTS (S.A.A.R.)
PER DIW 30.0 PERCENT 0.0 PERCENT

L/ CURRENT PRICE TERMS
CASH

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